

The Treasury

Budget 2022 Information Release

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Budget Ministers 4

Revised Budget 2022 Package

09 March 2022

Purpose

The key objectives for this meeting are to:

1. Discuss revised sub-packages in three key areas:
 - A **\$2.0 billion Health new spending** priority area sub-package over Budget 2022 and Budget 2023
 - A ^[33] proposed sub-package
 - A **\$2.0 billion Education** envelope
2. Discuss other options for **managing within a \$6.0 billion operating allowance**.

*Following this meeting I will amend the revised package to reflect our discussions. I intend to discuss the fiscal strategy and seek Budget Ministers agreement to a near-final Budget package in the **Budget Ministers 5 meeting on 22 March**.*

Key Points for Discussion

Following our previous meeting I have worked with the relevant portfolio Ministers to develop revised sub-packages in three key areas based on **operating envelopes**:

- **Health new spending:** \$1.0 billion operating against the Budget 2022 operating allowance and \$1.0 billion against the Budget 2023 operating allowance (in addition to health system cost pressure and rebase funding)
- **Welfare:** the Minister for Social Development and Employment's proposed sub-package of [33] total funding
- **Education:** my preferred envelope size of \$2.0 billion of total operating funding, but noting that the Minister of Education submitted a proposed sub-package of [33]

However, the revised Budget package **currently totals** [38] **billion operating per annum**, therefore we still need to make **significant further changes** to the package and progress other **savings and reprioritisation** options in order to manage within the \$6.0 billion per annum operating allowance.

If we agree to the above proposed operating envelopes, we will need to **make difficult trade-offs** across our other cost pressure and manifesto initiatives or push further on reprioritisation.

Fiscal Management Options

Compared to the Budget 2022 operating allowance, the BM4 package is oversubscribed by [38] **billion per annum**. There are a range of levers to reduce this oversubscription:

- Review the size of health, education and welfare envelopes** - potentially **\$0.2 billion** operating per annum
 - There are options for scaling funding of health cost pressures (currently \$4.8 billion operating over two years) by ~\$100 million operating per annum, but underfunding may lead to fiscal risks
 - We could consider reducing the size of the education envelope by ~\$100 million operating per annum and/or reducing new Health investments.
- Defer, phase or scale significant initiatives** – potentially [33] operating per annum
 - [33]
 - Scale some of the housing cost pressure initiatives (further information required)
 - Treasury could run a process to understand the minimum viable investment needed in each area, with a focus on cost pressures.
- Technical fiscal adjustments** - potentially **\$0.2 billion** operating per annum
 - There are options to treat technical fiscal adjustments such as Defence Force depreciation (~\$125 million operating per annum) and various asset depreciation revaluation initiatives (~\$90 million operating per annum) outside allowances
- Savings and underspends** - potentially **\$0.1 billion** operating per annum
 - [33]
- Reprioritise tagged contingencies** – I am considering options for reprioritising up to [33] operating per annum and [33] capital total. A detailed breakdown of options for reprioritising tagged contingency funding is included on slide 25.
- Rephase the operating allowance impact of cluster envelopes** - potentially **\$0.15 billion** operating per annum
 - To manage the impact on allowances, we have the **option to rephase the operating allowance** impact of cluster envelopes evenly across Budgets 2022, 2023 and 2024. This would reduce the impact on the Budget 2022 operating allowance by \$150 million per annum but also have a negative short-term impact on OBEGAL.

Key question: Which of the options above would we like to progress?

Revised Budget 2022 Package

A large, solid red triangle is positioned in the bottom right corner of the slide, pointing towards the top right. The rest of the slide has a white background.

Overview of Revised Budget 2022 Package – Operating

I have revised the Budget 2022 package to reflect the proposed health new spending, welfare and education sub-packages. **Further revisions will be required to manage within a \$6.0 billion per annum operating allowance.**

	Budget 2022 Operating Package				
	Sought by Ministers for Budget 2022 (\$b p.a.)	BM3 Package (\$b p.a.)	BM4 Package (\$b p.a.)	Budget 2023 Allowance (\$b p.a.)	Budget 2024 Allowance (\$b p.a.)
Operating Allowances	6.0	6.0	6.0	4.0	3.0
Pre-Commitments	0.8	0.8	0.9	-	-
Health Cost Pressures & Rebase	[33]	1.8	1.8	1.3	-
Health New Spending		0.5	0.25	0.25	-
Education	[38]			-	-
Welfare ^a	0.9	0.5	0.5	-	-
Clusters (Medium Envelopes) ^b	0.8	0.4	0.6	0.3	0.3
Cost Pressures ^a	1.5	1.0	1.0	-	-
Manifesto Commitments	3.3	0.8	0.7	-	-
Total	[33]			1.9	0.3
Total Workforce	7,706	3,615	2,990-3,570 ^d	-	-

a) BM3 package previously reported as \$6.4b. Upwards revision to [38] due to misclassification of disability initiative (now reflected in the welfare sub-package)

b) At Budget Ministers 3, we agreed to revise the funding profiles of the cluster envelopes to better reflect the actual phasing of the initiatives.

c) This number reflects my preferred \$2.0b envelope for Education. The figures for initiatives in the detailed slides refer to Minister Hipkins' \$2.2b package.

d) Range incorporates a top-down scaling of main Budget process scaled initiatives. Actual may be different due to gaps and errors in the source data, and due to many scaled initiatives still seeking the total additional personnel sought.

Numbers may appear not to sum due to rounding.

Overview of Budget package – CERF and capital

Following our discussion at the Budget Ministers 3 meeting and the bilateral conversations I have had with Portfolio Ministers, I have revised the Budget 2022 capital package and the Climate Emergency Response Fund priority area package.

	Budget 2022 capital package		
	Sought by Ministers for Budget 2022 (\$b total)	BM3 Package (\$b total)	BM4 Package (\$b total)
Multi-Year Capital Allowance	9.8		
Pre-Commitments	0.6	0.6	0.6
Health Cost Pressures & Rebase	[33]	[33]	1.3
Health New Spending		0.3	0.3
Education	1.2	0.5	0.7 ^c
Cost Pressures	1.5	0.9	1.0
Manifesto Commitments	0.9	0.3	0.3
Total Capital Initiatives	[33]		4.1
CERF Allowance	4.5		
CERF Pre-Commitments	0.8	0.8	0.8
CERF Initiatives	10.2	3.5	3.5

c) This number reflects the capital included in Minister Hipkins' \$2.2b package. My preferred \$2.0b envelope for Education has corresponding capital of \$0.9b. Numbers may appear not to sum due to rounding.

Priority Area: Health

The revised health new investment package focusses on initiatives to **deliver on health system reform** and those designed to **deliver on our other core priorities and commitments**, and the cost of new investment is now phased across two Budgets.

There are options for a ^[33] **package of new investment** (Minister of Health recommended) or a **\$2.0 billion package of new investment** (Treasury recommended). The \$2.0 billion package scales investment in health system reform initiatives. Both include the same level of funding for PHARMAC. This is **separate health system cost pressure and rebase funding**.

I am not seeking decisions on health cost pressures at this point. Further advice will be provided in advance of Budget Ministers 5 on the level of funding needed to meet our commitment to avoid deficits on 'Day One' of the reforms.

The following table outlines the key differences between the ^[33] and \$2.0 billion packages.

Key differences between the ^[33] package and the \$2.0 billion package	Portfolio Minister Recommended ^[33] (\$m)	Treasury Recommended (\$2.0b) (\$m)^	Differences
Critical data and digital foundations	^[33] \$100m capital	\$220m operating \$100m capital	^[33]
Transforming and extending the reach of specialist mental health and addiction services	\$100m operating	\$50m operating	-\$50m operating
^[33] Well Child Tamariki Ora (WCTO) Enhanced Support Pilots	^[33]	\$6m operating	^[33]
Funding to stabilise ^[33] Well Child Tamariki Ora (WCTO)		\$28m operating	
Addressing the burden of diabetes for Pacific communities		-	
^[33]		-	
Health workforce development		\$107m operating	
Comprehensive primary care teams		\$102m operating	
Allowing payment to family members for support services*	\$73m operating	\$111m operating	+\$38m operating
^[33]	^[33]	^[33]	^[33]
Meeting the demand for organ donation and transplantation (start one year later)		\$11m operating	
Total Health (New Investment) Sub-Package [Budget 2022 Impact]	^[33] operating \$0.3 billion capital	\$2.0 billion operating \$0.3 billion capital	

*Note: The \$2.0 billion package has not yet been tested with the Ministry of Health or Transition Unit. The \$2.0 billion package restores the part of *Allowing payment to family carers for support services* that sits outside Vote Health, and which was not in the ^[33] package. This reflects Treasury's understanding that this is a legal obligation and must be funded.

^These figures are reflected in the aggregate BM4 revised package figures.

Key question: Do you agree to the proposed Health (New Investment) sub-package?

Health – Key initiatives

excellent				poor
5	4	3	2	1

Key Initiative	Funding in \$2.0 billion Package (\$m)	Value	Alignment	Delivery	Treasury Comment
Critical Data and Digital Foundations (tagged contingency)	\$220m operating \$100m capital	3	5	3	Data and digital investment is essential for health system reform. A tagged contingency will enable initiatives to be further developed and prioritised. Investments will need to take account of the tight market for data and digital skills.
Increase in the Combined Pharmaceutical Budget (CPB – PHARMAC)	\$191m operating	3	3	5	The CPB was increased by \$200 million at Budget 2021. There are outstanding questions about how medicines should be funded in the new health system.
Hauora Māori commissioning	\$168m operating	4	5	4	-
Emergency Road Ambulance Services – cost pressures	\$166m operating	3	3	2	-
Establishment of Population Health & Disease Management Digital Capability	[33]	4	5	4	-
Continuing and expanding integrated mental wellbeing support for primary and intermediate school-aged children		5	5	2	-

Sub-Package: Welfare

The Minister for Social Development and Employment has proposed a new welfare sub-package of [33], and the Treasury has also provided me with two further package options for this sub-package. Treasury's Package 1 makes adjustments to the Minister for Social Development and Employment's Package while Treasury's Package 2 (Package 2) is based on the draft package provided for BM3. The rest of the slide focuses on comparisons between the Minister for Social Development and Employment's Package and Package 2. **Package 2 focuses on providing funding for the second year of the Disability Support Services Cost Pressures initiative.**

In order to fund the *Disability Support Services Cost Pressures* initiative within the overall [33] welfare envelope, **substantial scaling across the communities and employment areas and the deferral of the National Implementation of the Enabling Good Lives Approach initiative are required.** As such, Package 2 does not fund or only partially funds several initiatives the Government has committed to progressing.

There is insufficient information about the proposed additional personnel to provide an occupational breakdown of new roles sought. However, many roles are sought in "back office" functions like policy, data, ICT, management and corporate. A notable number of frontline administrative roles (such as call centre service delivery) are also sought.

Headline Welfare Initiatives	Portfolio Minister Recommended (\$m)^	Treasury Recommended (Package 2) (\$m)	Differences
<i>Disability Support Services Cost Pressures</i>	\$735m operating	[33]	[33]
<i>National Implementation of the Enabling Good Lives Approach</i>	[33]	-	
<i>Disability System Transformation - new Ministry for Disabled People</i>		\$108m operating	
<i>Te Pae Tawhiti – Designing the Ministry of Social Development's future operating model</i>		\$36m operating	
<i>Permanently increasing hardship assistance income limits</i>		\$56m operating	
<i>Supporting people on the public housing register</i>		-	
<i>All Social Sector Commissioning (Community) initiatives</i>	\$115m operating	\$19m operating	
<i>All Employment initiatives</i>	\$213m operating	\$133m operating	
Total Welfare Sub-Package*	[33]		

Key question: Are we comfortable with agreeing to the proposed welfare sub-package, or do we want to revise it?

*The welfare sub-package includes the impact of the previously misclassified disability initiative.

^These figures are reflected in the aggregate BM4 revised package figures.

Welfare – Key initiatives

excellent				poor
5	4	3	2	1

Key Initiative	Funding in Portfolio Minister Package (\$m)	Value	Alignment	Delivery	Treasury Comment
Cost Pressures for Disability Support Services (led by the Ministry of Health)	\$735m operating	3	4	4	There is a clear need for investment, and we consider the volume and price pressures to be genuine. This initiative has close connections to the other disability initiatives in Vote Social Development including the establishment of the Ministry for Disabled People. Further scaling would seriously impact the wellbeing of Disability Support Service clients and the sustainability of providers. It would also increase risk for the newly established Ministry.
Disability System Transformation – National implementation of EGL approach (led by the Ministry of Health)	[33]	5	4	1	There is a strong value proposition, and the Treasury has high confidence that the initiative will have large positive impacts. However, several factors increase the delivery risk of this initiative. These include risk to continuity of service for current clients; reliance on securing a large and highly skilled workforce; and ambitious and risky rollout timeframes. In addition, the fiscal risk of this initiative is increased by the limited available levers for fiscal management and control of current Disability Support Service expenditure. There are options for mitigating these risk through phasing and scaling to a regional-based rollout.
Child Support Pass-on	\$334m operating \$20m capital	3	5	2	This initiative has child poverty impacts, but the distributional impacts of these are narrow. Funding other policy decisions may have broader impacts on child poverty. Child Support is a particularly complex policy area. There are a range of policy, legislative, and operational issues that need to be addressed in the proposed tight timeframe. Additionally, MSD has a number of large projects to deliver in the near-term. This suggests that continuing to target a July 2023 implementation date has a high level of risk.
Te Pae Tawhiti – Designing the Ministry of Social Development's future operating model	[33]	3	4	2	The Treasury considers the updated package amount of [33] to be overly ambitious given the timeframes in which activity needs to occur. Instead, officials consider the original draft package amount of [33] as sufficient to support the Ministry of Social Development to prepare for the Te Pae Tawhiti Transformation Programme in line with current timelines.

Pre-Commitment	Funding	Pre-Commitment	Funding
Main Benefit (1 April 2022) increase	\$2,071m operating	Initial Working for Families Changes to Support Low-income Families	\$272m operating
Support Workers (Pay Equity) Settlements Act 2017: Increase to Wages - Disability Support Services component	\$63m operating	Support Workers (Pay Equity) Settlements Act 2017: Increase to Wages - Ministry of Social Development component	\$10m operating

Sub-Package: Education

I directed the Minister of Education to scale the education sub-package from [33] operating down to \$2.0 billion [38] operating and \$0.75 billion capital. In response, the Minister of Education has submitted a further sub-package comprising \$2.16 billion operating and \$0.75 billion capital.

Further scaling of \$160 million is required for the education sub-package to reach the \$2.0 billion that I signalled to Minister Hipkins. Scaling options totalling \$160 million could come from a mix of:

- A. Scaling Pay Parity from [33] operating and deferring Tomorrow's Schools (\$65m operating)
- B. Reducing funding-rate cost adjustments from [33] to 2.3% (saving \$160m operating)
- C. Deferring other discretionary initiatives such as the investment in curriculum and NCEA change (\$135 million operating total)

The \$2.0 billion Treasury package prioritises Māori-medium property, the Equity Index and Learning Support. It scales down discretionary and Manifesto initiatives. This improves alignment with He Ara Waiora, value for money and deliverability.

Headline Education Initiatives	Portfolio Minister Recommended (\$m)*	Treasury Recommended (\$m)	Change
<i>Expanding pay parity in early learning</i>	[33]	[33] \$5m capital	Decrease
<i>Equity Index</i>		\$392m operating \$5m capital	Increase
<i>Continuing the reform of the Tomorrow's Schools system</i>		-	Decrease
[33]		\$638m operating	Decrease
<i>Māori and Pacific education (including Māori-medium property in Treasury package)</i>		\$63 operating \$191m capital	Decrease (operating) Increase (capital)
<i>School Property (excluding Māori-medium property)</i>		\$75m operating \$672m capital	No Change
[38]			No Change
Total Education investment in Budget 2022	[38] \$0.7 billion capital	\$0.9 billion capital	Decrease (operating) Increase (capital)

*The aggregate operating figure for the BM4 revised package in the operating overview slide reflects my preferred \$2.0b operating envelope, not Minister Hipkins' \$2.2b envelope. The capital figure in the capital overview slide reflects Minister Hipkins' proposed package.

Key question: Are we comfortable with agreeing to the proposed education sub-package, or do we want to revise it?

Education – Key initiatives

excellent				poor
5	4	3	2	1

Key Initiative	Funding in Revised Package (\$m total)	Value	Alignment	Delivery	Treasury Comment
Expanding pay parity in early learning	[38] \$5m capital	3	3	5	The initiative will raise salaries for many ECE teachers, improving teacher quality and retention, however given the size of the investment it is considered to have lower value for money compared to other education initiatives.
Equity Index – Implementation in schools and kura, and system infrastructure costs for early learning services	\$308m operating \$5m capital	5	5	5	-
Continuing the reform of the Tomorrow's Schools system	[33]	3	3	4	Includes [33] for a discretionary fund for the Ministry of Education and [33] for leadership advisors. Considered to have relatively low value for money. Strong case for deferral.
Cost Adjustment to Tertiary Tuition and Training Subsidies		3	5	5	Tertiary providers are better positioned to absorb rising costs than schools and early learning services.
Cost adjustment for Schools' Operational Grant		4	5	5	-
Funding higher demand for tertiary education and training	\$122m operating	5	4	5	-
Cost Adjustment for Early Childhood Education	[33]	4	5	5	-

Significant Pre-Commitment	Funding (\$m)	Significant Pre-Commitment	Funding (\$m)
School Property Programme (Tagged Operating Contingency)	\$56m operating	Keeping Households Connected into the 2022 School Year	\$20m operating
Managing Apprenticeship Boost Initiative (ABI), Mana in Mahi, and Tertiary Education Funding Pressures	\$127m operating	Addressing COVID-19-Related Cost Pressures Within the Education System	\$10m operating

Note: \$127 million was pre-committed to fund a shortfall in the ABI. Updated estimates from new data suggests that this pre-commitment should be reduced to \$78.3 million through a savings initiative. Minister Hipkins has not submitted a separate initiative to extend ABI, and as a result, it will cease at its planned end date of August 2022. **Do Ministers have views on managing the expected ~\$50 million underspend?** 13

Priority Area – Climate Emergency Response Fund (CERF)

Following the discussion at our last meeting, I would like us to consider the following revisions to the CERF package submitted by Climate CEs (as reflected in the BM3 and BM4 draft packages):

- The initiative “Assisting low-income New Zealanders to shift to cleaner vehicles” seeks funding for a trial and the subsequent rollout of a **Vehicle Scrappage Scheme**. The Climate CEs high priority package included the trial only. Please indicate your preference for:
 - Funding the trial at a cost of \$31.812 million (currently included as a component in the draft CERF package, and Climate CE recommended); or
 - Funding the scheme in full at a cost of [33] (cost of trial and full roll out for scrappage components of initiative. This is not recommended.
- The initiative **Accelerating the decarbonisation of the public transport bus fleet** is not included in the draft CERF package. The Treasury recommends funding this initiative to 2025, when mandates could be introduced. I am interested in including this scaled initiative, at a cost of \$40.65 million.
- We discussed reducing the funding for **Public Transport Mode Shift**, currently included at [33] Please indicate your preference for:
 - Funding at \$375 million, to cover investment ready National Land Transport Programme proposals and plan updates (Treasury recommended); or
 - [33]
- [33]

The impact of these changes on the size of the CERF package is demonstrated on the next slide, alongside the impact of the package on emissions abatement.

CERF – Impact of Package Changes

The aggregate impact of the proposed changes on the previous slide would **reduce the size of the CERF package by** ^[33] **to a new size of \$2.4 billion.** This would leave \$1.3 billion remaining in the CERF, and initial forecasts show \$750 million of additional Emissions Trading Scheme cash proceeds since HYEPU, which could be added to the CERF.

Initiatives Under Consideration	Current Package (\$m)	Proposed Change (\$m)	New Package (\$m)
<i>Assisting low-income New Zealanders to shift to cleaner vehicles</i>	[33]	No change	[33]
<i>Reducing emissions from waste</i>		[33]	\$104.50m
<i>Accelerate the Decarbonisation of the Public Transport Bus Fleet</i>	-	Include \$40.65m	\$40.65m
<i>Delivering mode-shift and reducing VKT in New Zealand's main urban areas</i>	[33]	Reduce to \$374.55m	\$374.55m
<i>Agriculture emissions reduction - Supporting producers and Māori entities transition to a low emissions future</i>		[33]	\$34.82m
Total CERF package	\$3,526.71m	[33]	

Officials estimate that **the impact of the scaling and deferring in the Climate CE package** is to **widen the gap to meeting our first emissions budget (EB1) from 0.3Mt to 0.73Mt.** Making the changes above would **narrow this gap to 0.68Mt.**

The abatement potential of the Transport initiatives has never been included in the calculations for meeting EB1. Funding any Transport initiative will contribute to closing the gap. This means additional scaling in Transport, such as for mode shift, does not widen the gap for EB1. ^[33] is unlikely to have a significant abatement impact, as delivery, timeframes and other funding sources are unclear. However, it could affect future EBs.

Finally, I want to confirm our intention to **pre-announce the GIDI initiative.** At our last Climate Response Ministers meeting we were informed that this could increase abatement by 0.2Mt, **closing the gap even further to 0.48Mt** under this new package.

Key question: With these changes to the CERF package, are we comfortable socialising to Ministers and agencies so we can finalise the Emissions Reduction Plan?

Cluster Packages

At Budget Ministers 3, we agreed to provide the Natural Resources Cluster with a medium envelope and the Justice Cluster with an increased medium envelope to develop final packages. The table below outlines the size of each envelope.

\$ m	2022/23	2023/24	2024/25	2025/26	Total
Natural Resources Envelope	130	240	330	340	1,040
Justice Envelope	[38]				

The funding profiles agreed at Budget Ministers 3 reflect the reality of when non-discretionary funding pressures will take effect while still ensuring there are some new policy initiatives that start in 2022/23. This means a greater portion of the funding will impact the Budget 2022 operating allowance than the Budget 2023 and 2024 operating allowances.

To manage the impact on allowances, we have the **option to rephase the operating allowance** impact of cluster envelopes evenly across Budgets 2022, 2023 and 2024. This would result in an average operating allowance impact of \$420 million per annum. This could reduce the impact on the Budget 2022 operating allowance by **\$150 million per annum** but also have a negative short-term impact on OBEGAL.

Next Steps

I met with Cluster Ministers last week to discuss their draft Budget packages and outline my expectations, including:

- **Justice Cluster:** I have asked the Cluster to **manage within the increased medium envelope** by reconsidering the funding necessary to meet Police wage bargaining costs and/or scaling and rephasing other initiatives within the package to fund part of the wage bargaining costs. We will have a better sense of the trade-offs made once the Cluster submits their final package.
- **Natural Resources Cluster:** I have asked the Cluster to develop a final package within the medium envelope, which will **require a reasonable amount of scaling and rephasing** given the medium package they submitted exceeded the envelope by \$300 million. I expect the package will at least include funding for critical cost pressures, and flagship initiatives such as Resource Management reform.

The Clusters will submit final packages on 10 March, which will we consider at Budget Ministers 5.

Cost Pressure Initiatives

Following bilateral discussions, I have made minor amendments to the composition of the cost pressure sub-package. A key change to the cost pressure sub-package since Budget Ministers 3 is:

- [25]

I would like us to consider the following **key choices** relating to the scaling of cost pressure initiatives in order **to remain within allowances**:

- Keep the cost pressure sub-package the same, requiring further downwards revisions in other sub-packages, or
- Scale cost pressures further in order to prioritise other areas.

If we wish to investigate scaling cost pressures further, Treasury can provide further advice on minimum viable options, noting that scaling cost pressures may entail risks around service delivery and meeting minimum legal requirements.

Headline Cost Pressure Initiatives	BM3 Package(\$m)	Revised Package (\$m)	Change Since BM3
<i>Public and Transitional Housing (Housing and Urban Development)</i>	[33]		No Change
<i>Depreciation Funding Shortfall (Defence Force)</i>			No Change
[37], [38]			Increase
<i>Responding to COVID-19 demand and maintaining capability and integrity (Revenue)</i>	[33]		No Change
<i>Te Papa Tongarewa – Replacement Facility for Spirit Collection Area (Arts, Culture and Heritage)</i>	[37]		No Change
<i>Contracted Emergency Housing (Rotorua Response) (Housing and Urban Development)</i>	\$146m operating	\$146m operating	No Change
<i>Electoral Commission - maintain service levels in a complex environment with greater resilience (Justice)</i>	\$140m operating	\$140m operating	No Change
Total Cost Pressure Sub-Package	\$4.0 billion opex \$0.9 billion capex	\$4.0 billion opex \$1.0 billion capex	Increase

Key question: Do you want to keep the cost pressure sub-package as is, or are you comfortable with scaling cost pressures to manage within allowances?

Cost Pressures – Key Initiatives

excellent				poor
5	4	3	2	1

Key Initiative	Funding in Revised Package (\$m)	Value	Alignment	Delivery	Treasury Comment
Housing and Urban Development: Public and Transitional Housing – Maintaining and Increasing Public, Transitional and COVID-19 housing supply	[33]	3	4	3	[34]
Defence Force: Depreciation Funding Shortfall – <i>Address a funding gap so that NZDF no longer needs to seek new funding for depreciation costs associated with replacement capital expenditure</i>	[33]	3	3	5	Address a funding gap relating to depreciation costs for replacement assets to better incentivise NZDF to manage, and prioritise, within its available funding.
Revenue: Responding to COVID-19 demand and maintaining capability and integrity – <i>Funding for wage bargaining and retaining FTE to address tail of COVID-19 work and deferred BAU.</i>	[33]	4	4	4	-
Housing and Urban Development: Contracted Emergency Housing (Rotorua Response)	\$146m operating	3	4	4	This initiative is underway in Rotorua. While the initiative has yet to be fully evaluated, initial evidence indicates that it is already leading to improved outcomes over the status quo

Manifesto Initiatives

Following bilateral discussions, I have amended the composition of the manifesto sub-package. I would like us to consider key choices relating to the scaling, phasing and deferral of the following manifesto commitment initiative:

Social Unemployment Insurance - There are options to phase the [33] total funding over multiple Budgets. However, the Treasury and the Ministry of Business, Innovation and Employment advise that significant scaling would not enable the delivery of the scheme. Please indicate your preference for:

- [33]
-
-

Further Manifesto Commitment Initiatives – I would like us to consider the following key choices relating to the scaling of manifesto initiatives in order to remain within allowances:

- Keep the manifesto sub-package the same, requiring further downwards revisions in other sub-packages, or
- Scale or defer manifesto initiatives further in order to prioritise our other areas.

Headline Manifesto Initiatives	BM3 Package(\$m)	Revised Package (\$m)	Change Since BM3
<i>Establishment of a social insurance scheme (Labour Market)</i>	[33]		No Change
<i>Auckland Light Rail: Progressing the next phase of project delivery (Transport)</i>	[37], [38]		Decrease
<i>Future of Rail: Rolling Stock (Transport)</i>	\$349m capital	\$349m capital	No Change
<i>Supporting the reset and redesign of the emergency housing system (Housing and Urban Development)</i>	\$355m operating	\$355m operating	No Change
<i>Future of Rail: Rail Network Investment Programme (Transport)</i>	\$312m operating	\$312m operating	No Change
<i>Homelessness Action Plan (Housing and Urban Development)</i>	\$75m operating	\$75m operating	No Change
<i>Pacific Emergency Budget Support (Foreign Affairs)</i>	\$75m operating	\$75m operating	No Change
Total Manifesto Sub-Package	\$3.0 billion opex \$0.3 billion capex	\$3.0 billion opex \$0.3 billion capex	No Change

Key question: Are you comfortable that current draft manifesto sub-package meets our objectives and are there initiatives we could consider scaling or deferring?

Manifesto Commitments – Key Initiatives

excellent				poor
5	4	3	2	1

Key Initiative	Funding in Revised Package (\$m)	Value	Alignment	Delivery	Comment
Labour Market: Establishment of a social insurance scheme	[33]	-	-	2	[33]
Transport: Auckland Light Rail: Progressing the next phase of project delivery	[37], [38]	2	4	2	[37], [38]
Housing and Urban Development: Supporting the reset and redesign of the emergency housing system	\$355m operating	3	4	2	There is a clear case for redesigning the current emergency housing system and moving away from Emergency Housing Special Needs Grants, which have not been working as intended, especially with regard to wellbeing outcomes. This proposal depends on policy decisions taken by Cabinet (expected March 2022) following the completion of the emergency housing review being undertaken by HUD - as decisions are yet to be taken, there is a high degree of uncertainty around costings and delivery.
Arts, Culture and Heritage: Manatū Taonga Strong Public Media	[33]	3	3	4	This initiative represents reasonable value. The value score would be higher, but for the initiative seeking \$40 million per annum more than was recommended in the supporting detailed business case.
Foreign Affairs: Pacific emergency budget support: preventing fiscal crises and strengthening resilience in response to COVID-19	\$75m operating	4	4	4	[33]

Māori and Pacific Initiatives across Revised Package

Following discussion with Māori Ministers and further refinement of which initiatives are included in this total, the revised package (including CERF) now includes **\$776 million total operating funding** for initiatives identified as having a significant and targeted impact for Māori. Māori Ministers have identified four priorities for investment in Māori in Budget 2022, presented in the table below.

Note: these figures reflect the cluster medium envelopes and are therefore subject to change in line with final packages to be submitted by clusters on 10 March. They also reflect the Ministers' proposed packages for Social Development and Education; and the \$2.0 billion option for new Health spending.

Priority	Sought (\$m opex total)	Sought (\$m capex)	Package (\$m opex total)	Package (\$m capex)
Language, culture and identity <i>Including funding for Māori Medium Education provision and support for Matariki and Waitangi Commemorations.</i>	[33]	[33]		-
Māori health and wellbeing <i>Including funding for Hauora Māori Commissioning and partnerships with iwi and Māori in the justice sector.</i>		-	\$307m	-
Māori economy and employment <i>Including the continuation of the Māori Trades and Training Fund, expansion of the Cadetships programme and Progressive Procurement.</i>		\$156m	\$132m	-
Natural environment and climate change <i>Including ringfenced funding in emissions reduction initiatives and advisory services for Māori agribusiness.</i>		[33]		-
Other		-	-	-
Total	\$2,503m	[33]	\$776m	-

The draft package includes nine initiatives with funding specifically **targeted to Pacific communities**, totalling **\$138 million** operating funding:

- Pacific provider development (Health) **\$50m**
- Preventing Family Violence and Sexual Violence: Pasefika Proud (Social Development) **\$8m**
- Delivering bespoke employment and training through Tupu Aotearoa (Pacific Peoples) **\$8m**
- Building Pacific STEAM futures through Toloa (Pacific Peoples) **\$18m**
- Pacific bilingual and immersion education (Education) **\$13m**
- Dawn Raids Apology – Vote Education programmes (Education) **\$2m**
- Support for Māori and Pacific learners at risk of disengaging (Education) **\$8m***
- Delivering a Dawn Raids Historical Account (Pacific Peoples) **\$14m**
- [33]

*Funding for Māori and Pacific learners cannot be disaggregated, so the full amount is included in both totals.

Note: the Health Workforce Development initiative includes ringfenced funding for Māori and Pacific healthcare workers, but information is not currently available for how much funding would be set aside in the scaled initiative which is currently included in the \$2.0 billion health package. Accordingly, this initiative has been removed from totals.

Key question: Are you comfortable with the level of investment for Māori and Pacific peoples in the revised package?

Managing Cost Escalation across the Government's Investment Portfolio

Following bilateral discussions, I have amended the proposed capital investments across the Budget 2022 package to reflect scaling and prioritisation options. However, **there are broader sectoral issues relating to capital investment**, as outlined below.

Across our investments in delivery, we are **starting to see significant cost escalations** caused by ongoing supply chain issues and a tight labour market. This is exposing us to a **substantial fiscal risk** and **delivery delays**.

One option to address cost escalations is to provide further Budget funding. It is likely that we will also need to consider options such as prioritisation and sequencing investments to better match market capacity.

To enable a coordinated and consistent approach for the assessment of cost escalations, I have directed the Treasury to request information from agencies on potential cost escalations and the key drivers

[33]

Key question: Are you comfortable with this proposed approach, given the likely need for difficult choices on prioritisation and sequencing of projects?

Capital – Key Initiatives

excellent				poor
5	4	3	2	1

Key Initiative	Funding in Revised Package (\$m)	Value	Alignment	Delivery	Treasury Comment
Health: Capital for Sector Infrastructure	\$1,307m capital	3	4	3	This investment would cover cost escalation on existing investments, partial funding for the Nelson Hospital redevelopment and funding for other priority projects.
Transport: Future of Rail: Rolling Stock	\$349m capital	3	4	4	[33]
[37], [38]		3	4	4	-
Education: Land Purchases for New Schools	\$170m capital	4	4	4	-
Arts, Culture and Heritage: Te Papa Tongarewa – Replacement Facility for Spirit Collection Area	[37]	4	3	4	-
Health: Southern Health System Digital Programme	\$161m capital	3	3	2	This initiative is closely linked to the New Dunedin Hospital programme and is needed to achieve the programme's full benefits. A Detailed Business Case is expected in the next couple of months. Ongoing work will be needed to manage cost and delivery risk.
Justice: Te Au Reka (Caseflow Management) - Digitisation of court processes to improve the integrity of courts and tribunals	[33], [38]	4	4	4	-

Further Options for Managing Within Allowances



Tagged Contingencies

Treasury has provided me initial advice on options for reprioritising tagged contingencies. I am considering the reprioritisation of contingencies that [33]

In addition to these contingencies, before making a decision, I have asked Treasury for more information on contingencies that total a further [33]

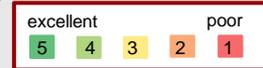
Many of the **largest tagged contingencies** relate to costs where reprioritisation is **not feasible** (e.g. pay equity), so I have ruled out the reprioritisation of at least **\$2 billion operating per annum** and **\$6.8 billion total capital**.

Tagged Contingencies	Number Active	Operating per annum (\$b)	Capital total (\$b)
For reprioritisation	2	0.01	-
Possible candidates for reprioritisation	[33]		
Further information required			
Not for reprioritisation	56	2.00	6.76

[33]

I will engage with relevant Ministers to understand implications of reprioritising contingencies and I will bring detailed options on reprioritisation to **Budget Ministers 5**.

Managing Initiatives with High Delivery Risks



The Treasury has raised concerns about the system's ability to deliver on some significant investments currently in the revised package. To improve the deliverability of these initiatives I propose the following mitigating actions be considered.

Initiative	Funding in Revised Package (\$m)	Delivery Rating	Mitigation Action
Health: Disability Support System Transformation – National Implementation of the Enabling Good Lives approach	\$240m operating	1	Phasing and scaling - The Treasury are concerned the pace and scale of the national approach to rollout would put undue pressure on the new Ministry for Disabled people while it is being established and taking over delivery of Disability Support Services. Shifting to a phased regional-based rollout and slowing down implementation would achieve the initiative's objectives while mitigating implementation risks. Funding should be held in contingency as detailed decisions on the rollout should be made after the new Ministry is established.
Labour Market: Establishment of a social insurance scheme	[33]	2	Phasing - Funding could be phased over future Budgets, but scaling options would compromise the quality of delivery or the ability to [33]
Transport: Auckland Light Rail: Progressing the next phase of project delivery	[37], [38]	2	[37], [38]
Social Development: Child Support Pass-on	\$334m operating \$20m capital	2	[33]
Agriculture, Biosecurity, Fisheries and Food Safety: Agriculture emissions reduction accelerating development of greenhouse gas mitigations	\$339m operating	2	Prioritise FTE funding for this initiative – Success of this initiative depends on recruiting experts in emissions mitigation and mātauranga Māori to reduce biological emissions. Given the tight labour market, when considering FTE funding this initiative should be prioritised.
Housing and Urban Development: Supporting the reset and redesign of the emergency housing system	\$355m operating	2	Clear/strong governance structure – This initiative represents a significant change to the emergency housing system and it will see a far larger role for iwi and Māori. To ensure the initiative is successfully implemented, the necessary governance structure will need to be in place alongside a phased rollout approach.

Next Steps



Timeline

March

April

**Budget
Ministers 4**
9 March

Meeting will cover:
Revised Budget
package.

**Budget
Ministers 5**
22 March

Meeting will cover:
Near final Budget
package

**Budget
Ministers 6**
1 April

Meeting will cover:
Outstanding
decisions to finalise
Budget package

**Cabinet
Approval of
Budget
Package**
(11 April)

Key Inputs

Preliminary
Fiscal
Forecasts
15 March

Updated
GDP
Statistics
17 March

Final
Economic
Forecasts
24 March

Cab Papers
on ERP
Up to 28
March

Final Tax
Forecasts
31 March

Ministerial
Consultation on
Emissions
Budgets and
ERP
To 14 April

Following this meeting, I propose to finalise this Budget package and present you with a near-final version at our **next meeting on Tuesday 22 March**.